

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
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R 131444Z APR 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 5979
INFO AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION GENEVA

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PARIS ALSO FOR USOECD; ALSO FOR USEC

PASS TREASURY, ATTN: SECRETARY BLUMENTHAL'S OFFICE

C O R R E C T E D FOR PARA TWO MISSING TEXT AND PARA ALSO
MIS-NUMBER

E.O. 11652: N/A
TAGS: EFIN, US, EC, BE
SUBJECT: TRIFFIN AND VAN YPERSELE COMMENTS ON WORLD AND
EC MONETARY REFORM

1. SUMMARY. ON APRIL 11 THE AMBASSADOR GAVE A LUNCHEON
IN HONOR OF DR. ROBERT TRIFFIN WHO IS CURRENTLY ON SABBAT-
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ICAL FROM YALE AND RESIDING IN BELGIUM (HIS BIRTHPLACE)
WHILE SERVING AS A CONSULTANT TO THE EC COMMISSION. BOTH
TRIFFIN AND JACQUES VAN YPERSELE (MINFINANCE INTERNATIONAL
COUNSELOR AND CHAIRMAN, EC MONETARY COMMITTEE) COMMENTED
ON WORLD AND EC MONETARY REFORM, PARTICULARLY AS REGARDS
HOW THE LATTER MAY EVOLVE FOLLOWING LAST WEEKEND'S EC
COUNCIL MEETING IN COPENHAGEN. WHILE WE DO NOT KNOW TO

WHAT EXTENT THESE IDEAS FIGURED IN THE COPENHAGEN DELIBERATIONS, THE PERSPECTIVE GIVEN IS NONETHELESS WORTHY OF NOTE IN ADVANCE OF SECRETARY BLUMENTHAL'S VISIT TO BRUSSELS APRIL 26. END SUMMARY.

2. AT THE LUNCHEON WHICH INCLUDED PROMINENT BELGIAN BUSINESSMEN, BANKERS, AND OFFICIALS, INCLUDING MINISTER FOR ECONOMIC AFFAIRS WILLY CLAES, DR. TRIFFIN LED OFF THE DISCUSSION BY STATING HIS VIEW THAT THE WORLD ECONOMY HAS NOW REACHED A POINT WHERE SERIOUS MONETARY REFORM IS ESSENTIAL. THE FLOATING SYSTEM HAS NO CENTER OF GRAVITY; THE DOLLAR IS STILL DE FACTO THE PRINCIPAL MEDIUM OF EXCHANGE AND RESERVE ASSET, BUT NEITHER THE USG NOR ANYONE ELSE CAN STABILIZE ITS VALUE. INSTEAD, SPECULATION AND MASS PSYCHOLOGY CREATE WIDE SWINGS IN THE DOLLAR AS WELL AS IN OTHER IMPORTANT CURRENCIES WHICH BOTH FUEL INFLATION AND RETARD BUSINESS RECOVERY. THE ENTIRE WESTERN WORLD--NOT JUST THE THREE "LOCOMOTIVES"--MUST JOIN IN THE SORT OF IMAGINATIVE AND COOPERATIVE EFFORT ONE SAW AFTER WORLD WAR II, IF DURABLE SOLUTIONS ARE TO BE FOUND.

3. IN THIS CONNECTION, TRIFFIN CONTINUED, THE COPENHAGEN SUMMIT MAY HAVE MARKED A MAJOR TURNING POINT, AT LEAST AT THE LEVEL OF EC MONETARY COORDINATION. WHILE PROFESSING IGNORANCE OF THE COUNCIL'S DELIBERATIONS, TRIFFIN SAID HE BELIEVES THERE IS NOW MORE POLITICAL WILL WITHIN THE LIMITED OFFICIAL USE

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COMMUNITY TO MOVE TOWARDS A PARALLEL EUROPEAN CURRENCY. THIS INNOVATION IS A NECESSARY PRECONDITION TO RESTRUCTURING OF EUROPEAN INDUSTRIAL SECTORS. IT WOULD ALSO RESULT IN A SUPPLEMENTARY RESERVE ASSET AND MEDIUM OF SETTLEMENT IN INTRA-EUROPE TRANSACTIONS WHICH COULD RELIEVE PRESSURE ON THE DOLLAR. AS SUCH, IT SHOULD BE WELCOMED BY THE U.S.

4. VAN YPERSELE SECONDED TRIFFIN'S VIEW THAT EC COUNTRIES NOW ARE BECOMING MORE RECEPTIVE TO PROGRESS TOWARDS GREATER MONETARY COOPERATION. THIS IS PARTLY DUE TO THE FALL OF THE DOLLAR AND PARTLY A REACTION TO CONTINUED STAGNATION IN BUSINESS ACTIVITY AND THREATS OF PROTECTIONISM. BUT WHAT WOULD NEW ARRANGEMENTS AMOUNT TO? VAN YPERSELE EXPLAINED HIS PERSONAL VIEW THAT THEY COULD BE BASED ON ELEMENTS OF BOTH THE FOURCAD AND DUISENBERG PLANS. THE NON-SNAKE EC CURRENCIES COULD BECOME ASSOCIATED WITH THE EXISTING SNAKE THROUGH ESTABLISHMENT OF TARGET ZONES AGAINST A DOLLAR-SNAKE CURRENCY BASKET (PERHAPS WEIGHTED AT 50-50 AT THE START, BUT GRADUALLY WEIGHTED MORE TOWARDS THE SNAKE AS THE OUTSIDERS EVOLVED TOWARDS FULL RE-ENTRY). THE NON-SNAKE COUNTRIES WOULD BE

OBLIGED TO ESTABLISH MONETARY GROWTH TARGETS AND AVOID ACTIONS WHICH WOULD RESULT IN THEIR FALLING OUT OF THEIR ZONES--BUT WOULD NOT BE OBLIGED TO INTERVENE TO STAY IN THEM. AT THE SAME TIME, INTERVENTION, IF DESIRED, WOULD BE EASED BY (A) REVIVING THE BELGIAN PRESIDENCY IDEA OF DOUBLING SHORT-TERM FECOM QUOTAS; (B) BASING FECOM CREDITS AT LEAST IN PART ON A NEW COMMUNITY RESERVE ASSET OR PARALLEL CURRENCY WHICH WOULD BE THE PRESENT EUROPEAN UNIT OF ACCOUNT SECURED BY CENTRAL BANKS' GOLD HOLDINGS. THE NEW UNIT OF ACCOUNT WOULD BE INTEREST-BEARING (BASED ON A BASKET OF EC RATES) AND MIGHT PERHAPS TAKE OVER PART OF THE EURO-DOLLAR MARKET (A FAVORITE IDEA OF TRIFFIN'S).

5. THIS "VAN YPERSELE PLAN" IS ALSO DESCRIBED ON PAGE 50
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OF THE APRIL 8 ECONOMIST, AN ARTICLE BASED ON HIS RECENT

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C O R R E C T E D C O P Y FOR TEXT AND MIS-NUMBERED PARA'S

WRITINGS PUBLISHED IN FRENCH IN THE BELGIAN MAGAZINE TRENDS. (TRANSLATIONS BEING POUCHED VIA SEPAIR WITH ADVANCE COPIES TO EUR/RPE AND TREASURY/OASIA).

6. THE AMBASSADOR ASKED TRIFFIN WHAT EUROPEANS SEE AS THE PRIMARY CONCERNS WHICH SECRETARY BLUMENTHAL SHOULD ADDRESS IN HIS BRUSSELS VISIT ON APRIL 26. TRIFFIN, WITH GENERAL SUPPORT FROM THE BELGIANS PRESENT, REPLIED THAT A PROMISE OF ACTION ON ENERGY WOULD, OF COURSE, HAVE A VERY POSITIVE EFFECT. IT IS ALSO VERY IMPORTANT HOWEVER, THAT THE USG ACKNOWLEDGE MORE FRANKLY THAN IT HAS TO DATE THAT THE US SHARES A RESPONSIBILITY TO WORK
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WITH OTHERS IN BUILDING A MORE STABLE MONETARY ORDER. DESPITE THE CARTER ADMINISTRATION'S EFFORTS TO IMPROVE ITS EUROPEAN TIES, TRIFFIN SAID HE STILL SEES TOO MUCH "CONNOLLYISM" IN OUR ECONOMIC POLICIES. VAN YPERSELE ADDED THAT THE U.S. HAS BECOME AS DOGMATIC ON FLOATING RATES AS THE FRENCH ONCE WERE ON FIXED RATES; THE MARKET INTERPRETS OUR CURRENT POLICY AS "ACCEPTING A SLIDE IN THE DOLLAR, AS LONG AS THE SLIDE IS ORDERLY." THE PURE FLOAT IS, HOWEVER, A FALLACY ACCORDING TO TRIFFIN; "IF YOU DON'T MANAGE YOUR OWN CURRENCY, SOMEONE ELSE WILL".

7. COMMENT. GIVEN THEIR INFLUENCE, POSITIONS AND LONG ACQUAINTANCESHIP (VAN YPERSELE STUDIED UNDER TRIFFIN AT YALE), IT IS CLEAR THAT TRIFFIN AND VAN YPERSELE CARRY SIGNIFICANT INFLUENCE WITHIN COMMUNITY CIRCLES ON EFFORTS TO PROMOTE GREATER EC MONETARY UNION. IN NATIONAL TERMS, VAN YPERSELE'S INVOLVEMENT IS ALSO PARTICULARLY FORTUITOUS FOR BELGIUM AT THIS TIME, GIVEN GROWING INTERNAL PRESSURES TO DEVALUE THE BF (SEE BRUSSELS 5390). SOME SEMI-CONTROLLED APPRECIATION OF NON-SNAKE EC CURRENCIES COULD HELP DEFLECT SUCH PRESSURES BY ENHANCING BELGIAN COMPETITIVITY BOTH WITHIN THE EC (WHICH ACCOUNTS FOR TWO-THIRDS OF BELGIAN TRADE) AND VIS-A-VIS ITS EC PARTNERS IN THIRD-COUNTRY MARKETS.
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